COMPANY REGISTRATION NUMBER 5781326

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

31 MARCH 2011

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

CONTENTS	PAGES
Officers and professional advisers	**2**
Directors' report	**3 - 5**
Statement of directors' responsibilities	**6**
Independent auditor's report to the shareholders of Punjab National Bank (International) Limited	**7 - 8**
Income statement	**9**
Statement of comprehensive income	**10**
Statement of changes in equity	**11**
Statement of financial position	**12**
Statement of cash flows	**13 - 14**
Notes to the financial statements	**15 to 41**

Company registration number	**5781326 dated 13 April 2006**
The board of directors	***Kasargod Ramachandra Kamath,*** Chairman– (appointed 19 February, 2010) ***Sukhdev Raj Sharma*** Managing Director and Secretary (Appointed 20 January, 2009) ***Muddoor Sadananda Nayak*** Executive Director (Appointed 8 February 2008) ***Pendarell Hugh Kent*** (appointed 10 April 2007) ***Paresh Mashru*** (appointed 10 April 2007) ***Shashi Kant Dubey*** (Appointed 18 August 2009)
Company secretary	***Sukhdev Raj Sharma***
Registered office	87 Gresham Street EC2V 7NQ, UK Tel : 020 77969600 Fax: 020 77961015 Email : md@pnbint.com
Auditor	**Deloitte LLP** Chartered Accountants and Statutory Auditor
Accountants	**King and King** Chartered Accountants

The directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31 March 2011. These financial statements have been prepared in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards as endorsed by the European Union.

RESULTS AND DIVIDENDS

The profit before taxation for the year ended 31 March 2011 amounted to $2,041,862 (2010: $5,386,884) and the profit after taxation is $1,401,635 (2010: $3,854,901) which is transferred to reserves. The directors do not recommend the payment of a dividend (2010: NIL). At 31 March 2011 the Punjab National Bank (International) Limited (the 'company' or the 'Bank') had total assets of $897,332,247 (2010: $799,553,884).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Punjab National Bank (International) Limited (PNBIL) is a UK incorporated bank offering commercial banking services to customers and is authorised and regulated by the Financial Services Authority (FSA). PNBIL is a 100% subsidiary of Punjab National Bank, one of the leading public sector banks of India. Punjab National Bank has an asset base of $76.87 billion (previous year $60.2 billion) as at 31 December 2010. PNBIL started its operations on 10 May 2007 after getting approval from the FSA on 13 April 2007. PNBIL's main strategy is to provide normal banking services to different types of customers, particularly to those with business or personal links with India.

PNBIL started its operations with two branches in London, one in Southall and a second branch at Gresham Street. As Southall is the hub of the Indian population, that branch is focusing on Retail Clients and the Gresham Street branch is concentrating on Corporate Clients. During the financial year 2008-09 PNBIL opened a branch at Leicester. During financial year 2009-10 it opened its fourth branch at Birmingham, while during 2010-11, it opened two more branches at Ilford and Wembley. All new branches focus on retail clients. It has plans to open its seventh branch at Wolverhampton in early 2011-12. Taking into account the good response received from clients, PNBIL is well on its way to building a strong brand image in the local market. PNBIL has been able to build a clientele base of more than 28,000 within a period of 46 months and expects this base to increase to more than 35,000 by the end of the next financial year.

PNBIL has been able to establish a foothold in commercial lending business by way of bilateral loans, participation in syndicated lending and investment business. The commercial lending and investments have resulted in a good income generating source for the Bank. PNBIL is quite active in its treasury operations including inter-bank lending and borrowing. Treasury activities are also focusing on efficient liquidity and optimizing returns through appropriate investments. To strengthen its activities, it also focuses on building up correspondent relationship with various banks and to increase the facility of money market lines. The treasury started trading in investments during the financial year 2009-10 and has already built a portfolio of more than USD 96 million in Investments, including AFS and HTM portfolios. All investments are bought on its own account. The Indian Rupee (INR) remittance scheme of the Bank is gaining in popularity. PNBIL launched a debit card for its current account holders and also started providing internet banking services, during the year 2008-2009. PNBIL has issued more than 13,945 debit cards to its clients by the end of March 2011.

In view of the low cost of set up and the low cost of operations and through effective management, the Bank was able to post a net profit in its first year of operations itself after accounting for all set up costs and continued to post reasonable profit in the subsequent years of operations including the current year. The operating profit before provisions and tax for the current financial year has increased by 61% ($10,779,448 as at 31 March 2011 as against $6,680,411 at 31 March 2010). The profit after provisions has declined due to requirements of certain provisions for impaired assets.

Included within the provisions of $10,031,113 (Note 15) there is a provision during the year made of $3,350,000 on account of investment in Lehman Brothers Treasury Co. B.V. (which is under liquidation) – Refer Note 13.

FINANCIAL RESULTS

The financial statements for the reporting year ended 31 March 2011 are shown on pages 9 to 41. The profit after taxation for the year is $1,401,635 (2010: $3,854,901).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company is subject to various operational and market risks in its day-to-day operations. The company's objectives and policies regarding financial risk, including the use of financial instruments, the policy for hedging, and an indication of the exposure to financial risk is provided in note 12.

GOING CONCERN BASIS

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. For further details please refer to Note 1 to the Financial Statements.

CAPITAL STRUCTURE

PNBIL has a capital base of $132,650,313 comprising of share capital of $74,630,629, upper tier II capital of $25,000,000, lower tier II capital of $25,000,000 and reserves of $8,019,684.

Upper Tier II Capital of $25,000,000 was raised during the year by issuing perpetual notes to the parent company – Punjab National Bank. This amount is included under equity in the financial statements (see note 21). The amount of $25,000,000 existing as redeemable bonds is shown in the financial statements as a financial liability (see note 23); however it qualifies as Lower Tier II capital for regulatory capital purposes. Further details of the Bank's regulatory capital ratios required under Basel II Pillar 3 are published on the Bank's website.

KEY PERFORMANCE INDICATORS

The key performance indicators used by the company for the current year centred on the opening of new accounts for customers, increasing Deposit base, origination of commercial loans and improving the profitability.

	2011	**2010**
New Accounts Opened	13,726	12,387
Customer Deposits	$654.66 million	$405.13 million
Total Loans	$705.36 million	$569.24 million
Investments	$95.69 million	$42.39 million
Interbank Deposits	$100.38 million	$281.18 million
Interbank Placements	$106.23 million	$169.39 million
Operating Profit before Provisions and Tax	$10.78 million	$6.68 million
Profit before Tax	$2.04 million	$5.38 million

FUTURE DEVELOPMENTS

The Bank has operationalised its 7th branch in April 2011. The Bank also proposes to re-launch on-line remittance and deposit products after obtaining FSA approval for the same. The Bank may also consider launching ISA product for small savers.

As a part of its expansion strategy in Europe, the Bank will explore possibility of establishing an office in one of the European countries.

CHARITABLE DONATIONS

Charitable donations in the sum of $2,005 were made during the year (2010: $1,898).

DIRECTORS

The current directors are listed on page 2.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who are a director at the date of approval of this annual report confirm that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

ELECTIVE RESOLUTIONS

The company, being wholly-owned by Punjab National Bank, has elected to dispense with the requirement to hold annual general meetings, lay Directors' reports and financial statements before a general meeting and re-appoint its auditor annually.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor.

GENERAL MEETINGS

In accordance with the Companies Act 2006 the company is not required to hold an annual general meeting.

Approved by the board on 26 April 2011
and signed on its behalf by

S. R. Sharma
Secretary
Company number: 5781326

The directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have elected to prepare group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm to the best of our knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
2. The management report, which is incorporated into the Directors' Report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Sukhdev Raj Sharma
Managing Director
26 April 2011

Muddoor Sadananda Nayak
Executive Director

Independent auditor's report to the shareholders of Punjab National Bank (International) Limited
FOR THE YEAR ENDED 31 MARCH 2011

We have audited the financial statements of Punjab National Bank (International) Limited for the year ended 31 March 2011 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2011 and of the profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Caroline Britton (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

26 April 2011

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 $	2010 $
Interest Income	3	**37,711,730**	*26,047,354*
Interest Expense		**(25,421,076)**	*(17,402,057)*
		12,290,654	*8,645,297*
Other operating income		**6,297,964**	3,676,777
Marketing costs		**(100,096)**	(125,614)
Administrative expenses		**(7,709,074)**	(5,516,049)
Provision on impaired assets	15	**(8,737,586)**	(1,293,527)
OPERATING PROFIT BEFORE TAX	4	**2,041,862**	5,386,884
Income tax expense	7	**(640,227)**	(1,531,983)
PROFIT FOR THE YEAR		**1,401,635**	3,854,901

Profit for the current year and preceding year is solely from continuing operations.

The notes on pages 15 to 41 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2011

	2011 $	*2010* *$*
PROFIT FOR THE YEAR	**1,401,635**	**3,854,901**
Available for Sale Investments		
Net fair value (losses)/profits taken to equity on AFS investments	**(325,404)**	**217,835**
Tax relating to movement on AFS investments	**91,113**	**(60,995)**
	(234,291)	**156,840**
Reclassification for gains/losses on sale of AFS Investments included in profits	**(156,840)**	-
	(391,131)	**156,840**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,010,504**	**4,011,741**

The notes on pages 15 to 41 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2011

31.3.2011

	Issued capital $	AFS reserves $	Retained earnings $	Total equity $
Balance at 1 April 2010	74,630,629	156,840	6,852,340	81,639,809
Profit for the year	-	-	1,401,635	1,401,635
Fair value loss taken to equity on AFS securities	-	(234,291)	-	(234,291)
Fair value gains taken to Retained earnings on AFS securities	-	(156,840)	-	(156,840)
Total comprehensive income for the year	-	(391,131)	1,401,635	1,010,504
Issue of Perpetual Notes*	25,000,000	-	-	25,000,000
Balance at 31 March 2011	**99,630,629**	**(234,291)**	**8,253,975**	**107,650,313**

* Upper Tier II Capital by way of perpetual notes (see note 21).

31.3.2010

	Issued capital $	AFS reserves $	Retained earnings $	Total equity $
Balance at 1 April 2009	49,630,629	-	2,997,439	52,628,068
Profit for the year	-	-	3,854,901	3,854,901
Fair value gains taken to equity on AFS securities	-	156,840	-	156,840
Total comprehensive income for the year	-	156,840	3,854,901	4,011,741
Issue of share capital	25,000,000	-	-	25,000,000
Balance at 31 March 2010	**74,630,629**	**156,840**	**6,852,340**	**81,639,809**

The notes on pages 15 to 41 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011

	Notes	2011	*2010*
ASSETS		**$**	*$*
NON CURRENT ASSETS			
Property, plant and equipment	8	**1,320,084**	**1,141,541**
Intangible assets	9	**174,480**	**232,373**
Investments held to maturity	11	**23,325,296**	**22,347,915**
Loans and receivables	14	**304,499,361**	**262,828,765**
		329,319,221	**286,550,594**
CURRENT ASSETS			
Investments held to maturity	11	**21,504,296**	**9,665,337**
Loans and receivables	14	**388,895,261**	**300,545,741**
Available-for-sale financial assets	16	**47,513,527**	**10,379,090**
Trade and other receivables	18	**5,337,563**	**3,778,329**
Prepayments	19	**825,271**	**394,833**
Cash and cash equivalents	20	**103,937,108**	**188,239,960**
		568,013,026	**513,003,290**
TOTAL ASSETS		**897,332,247**	**799,553,884**
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	21	**99,630,629**	**74,630,629**
AFS revaluation reserve	22	**(234,291)**	**156,840**
Retained profits		**8,253,975**	**6,852,340**
TOTAL EQUITY		**107,650,313**	**81,639,809**
NON CURRENT LIABILITIES			
Interest bearing borrowings	23	**190,897,350**	**63,043,436**
Deferred tax liability	10	**9,791**	**5,483**
		190,907,141	**63,048,919**
CURRENT LIABILITIES			
Interest bearing borrowings	23	**543,986,255**	**611,787,039**
Non-interest bearing borrowings	23	**45,334,942**	**37,017,681**
Tax payable		**57,396**	**859,875**
Trade and other payables	24	**9,396,200**	**5,200,561**
		598,774,793	**654,865,156**
TOTAL EQUITY AND LIABILITIES		**897,332,247**	**799,553,884**

The financial statements were approved by the Board of Directors and authorised for issue on 26 April, 2011.

K R KAMATH
Chairman - New Delhi (India)

S R SHARMA
Managing Director - London

S K DUBEY	M S NAYAK	P H KENT	P MASHRU
Director	Director	Director	Director
London	London	London	London

Company Registration No 5781326

The notes on pages 15 to 41 form part of these financial statements

PUNJAB NATIONAL BANK (INTERNATIONAL) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011

	2011 $	*2010 $*
CASH FLOWS FROM OPERATING ACTIVITIES		
Total Profit for the year	**1,401,635**	3,854,901
ADJUSTMENTS TO RECONCILE TO PROFIT FROM OPERATIONS		
Income tax expense	**640,227**	1,531,983
ADJUSTMENTS TO RECONCILE PROFIT FROM OPERATIONS	**2,041,862**	5,386,884
NON-CASH ADJUSTMENTS		
Amortisation of other intangible non-current assets	**223,655**	272,820
Depreciation of property, plant and equipment	**577,211**	388,153
Impairment losses on non-current financial assets	**3,350,000**	-
Impairment losses on current financial assets	**5,387,586**	1,293,527
Unrealised losses (gains) on foreign currency exchange	**16,240**	(44,365)
NON-CASH ADJUSTMENTS	**9,554,692**	1,910,135
CASH FLOWS BEFORE CHANGES IN WORKING CAPITAL	**11,596,554**	7,297,019
DECREASE IN WORKING CAPITAL		
Increase in loans and receivables	**(113,968,757)**	(171,224,388)
Increase in trade and other receivables	**(1,989,672)**	(542,847)
Increase in customer overdrafts	**(21,438,947)**	(22,620,829)
Increase in available-for-sale financial assets	**(37,677,676)**	(10,161,255)
Increase/(Decrease) in trade and other payables	**191,852**	(145,550)
Increase in accruals	**4,291,216**	549,590
Increase in other liabilities	**68,370,390**	176,770,104
DECREASE IN WORKING CAPITAL	**(102,221,594)**	(27,375,175)
CASH FLOWS FROM OPERATING ACTIVITIES	**(90,625,040)**	(20,078,156)
CASH FLOWS USED IN OTHER OPERATING ACTIVITIES		
Income taxes paid	**(1,589,956)**	(1,274,688)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(92,214,996)**	(21,352,844)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	**(755,754)**	(577,500)
Payments to acquire intangible assets	**(165,762)**	(48,939)
Payments to acquire investments held to maturity	**(27,074,740)**	(12,440,472)
Receipts from investments held to maturity	**10,908,400**	6,000,000
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(17,087,856)**	(7,066,911)

The notes on pages 15 to 41 form part of these financial statements

CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issue of equity share capital	**-**	*25,000,000*
Gross proceeds from issue of perpetual notes	**25,000,000**	*-*
NET CASH FLOWS FROM FINANCING ACTIVITIES	**25,000,000**	*25,000,000*
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(84,302,852)**	*(3,419,755)*
Cash and cash equivalents as at 1 April 2010	**188,239,960**	*191,659,715*
CASH AND CASH EQUIVALENTS AS AT 31 MARCH 2011 (NOTE 20)	**103,937,108**	*188,239,960*

The notes on pages 15 to 41 form part of these financial statements

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRSs

The company's financial statements for the year were authorised for issue on 26 April 2011. Punjab National Bank (International) Limited is a limited company incorporated and domiciled in the United Kingdom.

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the company are set out in note 2.

Adoption of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

- Amendments to IAS 32 (October 2009) Financial Instruments: Classification of Rights Issues
- Amendments to IFRS 2 (June 2009) Group Cash Settled Share-based Payment Transactions
- IFRS 3 (revised January 2009) Business Combinations
- Amendments to IAS 27 (January 2008) Consolidated and Separate Financial Statements
- Amendments to IAS 39 (July 2008) Eligible Hedged Items
- IFRIC 18 Transfer of Assets from Customers
- IFRIC 17 Distribution of Non-cash Assets to owners

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IAS 24 (revised November 2009) Related Party Disclosures
- Amendments to IFRIC 14 (November 2009) Prepayments of a Minimum Funding Requirements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements in the period of its initial application.

Critical accounting judgements and key sources of estimation uncertainty

In application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources and may make necessary provisions in accordance with their assumptions. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. In particular, loan impairment is a key area for the bank which is subject to critical accounting estimates and assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate in revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods

Going Concern Basis

The Bank's business activities and future outlook are set out in the Directors' Report. The Bank has been able to generate Profit before Tax of $2,041,862 resulting in an increase in retained earnings of $1,401,635 after making provision for tax. During the year, the Bank has raised additional upper Tier II capital of $25 million. This amount has been raised by the issue of Perpetual Notes (callable after ten years) to the parent company. Accordingly the Large Exposure Capital base (LECB) has been increased to $132.65 million. This will enable the bank to grow its balance sheet size and accordingly increase the earning capacity.

The liquidity position of the Bank remains stable and the Bank is able to have sufficient liquidity in the short run. Note 12 to the financial statements include the Bank's objectives, policies and processes for managing its capital; its Financial Risk Management objectives; details of its financial instruments and hedging activities; and exposure to its credit, market, liquidity and other risks.

After making enquiries, the directors have a reasonable expectation that the Bank has adequate resources to continue its operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2. ACCOUNTING POLICIES

Revenue recognition

Interest income and expense for all interest bearing financial instruments are recognised in Interest and similar income and interest expenses and similar charges in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

Interest and other income is credited to the income statement as it accrues unless there is a significant doubt that it can be collected.

Functional currency and foreign currency transactions

The directors consider the US Dollar as the currency of the primary economic environment in which the company operates. Accordingly, the US Dollar is regarded as being the functional currency of the Company, which is also the reporting currency of the Company.

Transactions in foreign currencies are recorded in US Dollars at the rate of exchange prevailing at the rates ruling at the end of the day in which the transaction arose. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at balance sheet date. Any resulting exchange differences are included in the income statement.

Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through the income statement; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

i. Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets in this category are stated at fair value within any resultant gain or loss recognised in the Income Statement.

The Company's management has not identified any assets as falling into this category.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money or services to a debtor with no intention of trading the receivable. Loans and receivables are initially measured at Fair value and measured at amortized cost using the effective interest method less any impairment.

iii. Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held to maturity are carried at cost less impairment if any.

iv. Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. After initial recognition, investments which are classified as available for sale are carried at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in other reserves. Where the investment is disposed of the cumulative gain or loss, previously recognised in other reserves is included in income statement for that period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

De-recognition of financial assets and liabilities

Financial assets are de-recognised when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual right to receive the cash flows of the financial assets and either:

i. substantially all the risks and rewards of ownership have been transferred; or
ii. substantially all the risks and rewards have neither been retained nor transferred but control is retained.

Financial liabilities are de-recognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expires.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

Available for Sale Assets

The company assesses at each Balance Sheet date whether there is objective evidence that an available for sale asset is impaired. Objective evidence that a financial asset is impaired includes observable data that come to the attention of the Company such as a major change in price due to deterioration of credit ratings which has an impact on the Company's estimated future cash flows of the financial assets. If an impairment loss has been incurred, the cumulative loss (measured as a difference between the original cost and the fair value) less any impairment loss on that asset previously recognised, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

Derivative Financial Instruments

Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including exchange forward contracts, interest rate swaps and cross currency swaps. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non current asset or a non current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Otherwise derivatives are presented as current assets or current liabilities.

Property, plant and equipment
Property, plant and equipment are stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives as follows:

Fixtures including computers and accessories	3-5 years
Leasehold improvements	5 years

Intangible assets
Intangible assets are stated at cost or fair value on recognition less accumulated amortisation and any impairment in value.
Amortisation is calculated so as to write off the cost or valuation of intangible assets over their estimated useful lives, using the straight-line method, on the following bases:

Software	Over 3 - 4 years

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash, notes and coin, treasury bills and other eligible bills, loans and advances to banks, and certificates of deposit.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred income tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it furthers excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Other liabilities

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Operating lease commitments

Operating leases payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

3. OPERATING SEGMENTS

The Bank undertakes the business of commercial banking which is carried on within the United Kingdom. Its activities are currently managed on a centralised business model so the revenue and the costs are not attributable to any one operating or geographic segment.

Interest Income is derived from a range of products and the split of Interest earned is shown below:

	2011 **$**	*2010* *$*
Interest Income		
Over draft	**3,291,617**	1,798,283
Foreign Bills	**73,616**	40,670
Term Loan	**21,157,253**	15,733,884
Treasury Securities	**9,136,220**	4,873,922
Inter Bank Placements	**4,053,024**	3,600,595
	37,711,730	26,047,354

No revenue transaction with a single external customer or counter party amounted to 10% or more of the total revenue for the year.

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2011 $	*2010 $*
Interest expense	**25,421,076**	*17,402,057*
Depreciation of property, plant and equipment	**577,211**	388,153
Amortisation of intangible assets	**223,655**	272,820
Operating leases:		
Lease rental expenses	**569,872**	*322,063*
Auditor's remuneration - audit services	**203,079**	*189,775*
Auditor's remuneration - non-audit services	**112,757**	*28,319*
	315,836	*218,094*

	2011 $	*2010 $*
Included in other operating profit:		
Foreign exchange gains	**987,896**	*577,791*
Included in administrative expenses:		
Employee benefits expense	**3,077,963**	*2,059,145*
Depreciation and amortisation	**800,866**	*661,973*
	3,878,829	*2,720,118*

5. EMPLOYEE EXPENSES

	2011 $	*2010 $*
Wages and salaries	**2,241,542**	1,441,178
Post employment expense for defined contribution plans	**61,928**	28,227
Other employee benefits	**586,945**	432,809
Social security costs	**187,548**	156,931
	3,077,963	*2,059,145*

The average monthly number of employees during the year was made up as follows:

	2011 No.	*2010 No.*
Administration	**14**	13
Sales and marketing	**48**	33
	62	46

6. DIRECTORS' EMOLUMENTS

	2011 $	*2010* *$*
Emoluments	**375,654**	*286,447*

The emoluments of directors disclosed above include the following in respect of the highest paid director.

	2011 $	*2010* *$*
	141,378	*124,370*
Contributions to money purchase pension schemes – (All directors) Number of Directors in the money purchase pension scheme is 1.		
	32,520	*23,380*

7. INCOME TAX

Components of income tax expense

	2011 $	*2010* *$*
Current income tax expense		
Current income tax charge	**635,919**	*1,521,170*
Deferred income tax expense		
Relating to origination and reversal of temporary differences	**4,308**	*10,813*
Income tax expense reported in income statement	**640,227**	*1,531,983*

Reconciliation of income tax charge to accounting profit

	2011 $	*2010* *$*
Profit Before Tax	**2,041,862**	5,386,884
Tax at the domestic income tax rate of 28% (2010 28%)	**571,721**	1,508,327
Tax effect of non taxable revenues	**-**	(12,422)
Tax effect of non deductible expenses	**68,506**	36,078
Tax expense using effective rate	**640,227**	1,531,983

8. PROPERTY, PLANT AND EQUIPMENT

At 31 March 2011

	Leasehold improvements $	Fixtures and fittings $	Total $
Cost			
At 1 April 2010	553,408	1,604,758	2,158,166
Additions	318,896	436,858	755,754
At 31 March 2011	872,304	2,041,616	2,913,920
Depreciation			
At 1 April 2010	(193,822)	(822,803)	(1,016,625)
Charge for year	(160,105)	(417,106)	(577,211)
At 31 March 2011	(353,927)	(1,239,909)	(1,593,836)
Net book value			
At 1 April 2010	359,586	781,955	1,141,541
At 31 March 2011	518,377	801,707	1,320,084

At 31 March 2010

	Leasehold improvements $	Fixtures and fittings $	Total $
Cost			
At 1 April 2009	371,564	1,209,102	1,580,666
Additions	181,844	395,656	577,500
At 31 March 2010	553,408	1,604,758	2,158,166
Depreciation			
At 1 April 2009	(110,528)	(517,944)	(628,472)
Charge for year	(83,294)	(304,859)	(388,153)
At 31 March 2010	(193,822)	(822,803)	(1,016,625)
Net book value			
At 1 April 2009	261,036	691,158	952,194
At 31 March 2010	359,586	781,955	1,141,541

9. INTANGIBLE ASSETS

31 March 2011

	Software $
Cost	
At 1 April 2010	900,753
Additions	165,762
At 31 March 2011	1,066,515
Amortisation	
At 1 April 2010	(668,380)
Charge for the year	(223,655)
At 31 March 2011	(892,035)
Carrying value	
At 1 April 2010	232,373
At 31 March 2011	174,480

31 March 2010

	Software $
Cost	
At 1 April 2009	851,814
Additions	48,939
At 31 March 2010	900,753
Amortisation	
At 1 April 2009	(395,560)
Charge for the year	(272,820)
At 31 March 2010	(668,380)
Carrying value	
At 1 April 2009	456,254
At 31 March 2010	232,373

10. DEFERRED TAX LIABILITY

	2011	*2010*
	$	*$*
At 1 April	**(5,483)**	5,330
Charge for year	**(4,308)**	(10,813)
At 31 March	**(9,791)**	*(5,483)*

11. INVESTMENTS HELD TO MATURITY

	2011	*2010*
	$	*$*
Marketable debt securities	**48,179,592**	32,013,252
Less Impairment Provision made	**(3,350,000)**	
Net Book Value of HTM securities	**44,829,592**	32,013,252
Current	**21,504,296**	9,665,337
Non-current	**23,325,296**	22,347,915
	44,829,592	32,013,252

For details of Fair Value on held to Maturity Investments, refer to Note 13

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Governance

The Board of Directors have overall responsibility of risk management of the Bank. The Board has formed an Audit and Compliance Committee (ACC) and a Risk Management Committee (RMC) for overseeing the risk management function. There are various other committees formed with the role and responsibility to manage defined aspects of risk management.

The role and responsibilities of various risk management committees are set out in the following paragraphs.

Audit and Compliance Committee (ACC)

- Review financial statements and the Annual Report and Accounts of the company and recommend them to the Board;
- Review the effectiveness of internal controls and monitor the implementation of any remedial actions;
- Review effectiveness of risk management; and report to the Board;
- Review MLRO Annual Report;
- Review Internal Audit reports;
- Review external audit reports, the annual audit plan and the External Auditor's annual management letter;
- Review policy exchanges and other major reports to or from the regulators;
- Review other compliance reports; and
- Review regularly its own terms of reference and its own effectiveness.

Risk Management Committee (RMC)

The RMC is formed as an executive committee and is responsible for :

- Oversight of management of Operational Risk, Market Risk, Credit Risk and residual risks;
- Implementation of obligations under ICAAP document submitted to FSA;
- Review and modification to ICAAP;
- Maintaining adequate capital, based on the capital adequacy ratio stipulated by the regulator;
- Finalize credit rating module for the Bank and submit for the approval of the Board;
- Modify credit policy and submit for the approval of the Board;
- Finalize provisioning policy for the Bank and submit for the approval of the Board;
- Review periodical stress test on Capital requirement of the Bank; and
- Periodically apprise the Board on Risk management issues.

Asset and Liability Management Committee (ALCO)

The ALCO is an executive committee, which monitors and manages the Bank's balance sheet, interest rate on deposits, and liquidity. The ALCO will also strive to optimize the Bank's net interest income.

Credit Recommendation Committee

The credit recommendation committee assesses the loan applications and puts up its recommendation to the sanctioning authority.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued

Management Committee of the Board (MCB)

MCB comprising of four directors including two non executive directors is formed mainly to act as sanctioning committee for all proposals over and above USD 5 million. The committee is also responsible for approval of all new products, review and enhancement to existing products, periodical review of stressed assets and finalizing provisioning requirements, taking stock of any breaches in any of the policies and identifying the resolution there to and periodical review of business strategy and branch expansion plans.

Compliance

The main responsibility of Compliance is to support the Board and senior management in fulfilling their financial services regulatory obligations and to help maintain the Bank as a ‘fit and proper’ institution, in whatever form of business it undertakes, by helping to ensure compliance with the voluntary codes, principles, rules and regulations established by the various financial services regulatory organizations.

Compliance sets the overall regulatory governance arrangements and provides information, advice and guidance to business on financial services regulations. It also monitors business activities to ensure that improper conduct and failures to comply with regulatory requirements are brought to the attention of management for appropriate corrective action.

Compliance provides a focal point to coordinate communications and consultations with regulatory authorities and also carries out reviews of relevant business units against applicable rules, guidance and the Bank’s internal policies and procedures.

The Executive Director has the responsibility of oversight into the compliance aspects of the Bank and he is assisted by the Money Laundering Reporting Officer and Internal auditor for effective oversight.

Internal Audit

The Bank has appointed an internal auditor and his main role is:

- To produce formal reports periodically on the adequacy and effectiveness of the control processes to the Managing Director and other operational heads;
- To produce a quarterly report to the ACC on the operations of control processes and management’s response in addressing identified issues;
- To obtain commitment from the management in undertaking remedial actions based on its findings; and
- To review and recommend changes to the control processes from time to time.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Categorization

The Bank has categorized various risks under following heads:

Credit Risk

Credit Risk is defined as potential financial loss on account of delay or denial of repayment of principal or interest with respect to a credit facility extended by the Bank, both fund and nonfund based. Credit Risk can also arise on account of downgrading of counterparties to whom credit facilities are extended or whose credit instruments the Bank may be holding, causing the value of those assets to fall.

The undertaking of credit risk with a view to earn a return is the main feature of the Bank's business. Risks arising from changes in credit quality and recoverability of the credit facilities from the counterparties are inherent across most of the Bank's activities. Adverse changes in the credit quality of borrowers or general deterioration in the economic conditions under which these counter parties operate could also affect the recoverability and value of Bank's assets and therefore its financial performance.

The following techniques are in place to mitigate the credit risks:

- The bank has an approved lending policy wherein the types of credit facilities are defined as also the sanctioning authority with specific financial limits;
- Every credit facility beyond a pre-determined limit sanctioned is processed through recommending committee and sanctioned by the credit sanction committee;
- Credit risk under each loan above the threshold limit is assessed both on financial and non-financial parameters;
- Concentration risk is taken into account both with respect to individual or group exposures as well as industry wide or country wide exposures;
- Most of the facilities are secured by either tangible securities or third party guarantees;
- With respect to large value facilities other than under- syndicated facilities, documentations are done through external solicitors;
- Periodical review and monitoring of facilities undertaken to identify and attend to any observed weakness in any facility;
- All facilities above prescribed threshold limits are reported to the Board from time to time; and
- Lending policies and limits are periodically reviewed by the Board.

The Directors consider that there are no impaired assets or amounts past due in the books of PNBIL other than those for which an impairment reserve has been made.

PNBIL does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

PNBIL measures and monitors large exposures on a daily basis. Any exposure to a single party or group in excess of 10% of its capital base is considered as large exposure as per regulatory guidelines.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The top five Non-Banking exposures as at 31 March 2011 are as follows:

Sr. No	Industry	Country of exposure	Type of account	Amount of Loan
1	Iron and Steel Manufacturing	India	Syndication	$15,000,000
2	Packaging	Mauritius	Term Loan	$ 10,500,000
3	Diamond Trading	Belgium	Overdraft	$ 10,126,473
4	Iron and Steel Manufacturing	India	Syndication	$ 10,011,802
5	Packaging	India	Syndication	$ 10,000,000
	Iron and Steel Manufacturing	India	Syndication	$ 10,000,000
	Trading	Singapore	Syndication	$ 10,000,000
	Shipping	Singapore	Syndication	$ 10,000,000

The carrying value of financial assets recorded in the financial statements represents the bank's maximum exposure to credit risk.

Market Risk

Market risk is defined as the potential adverse change in the Bank's income or net worth arising from movements in interest rates, exchange rates, equity prices and/or other market prices. Effective identification and management of market risk is required for maintaining stable net interest income.

The most significant forms of market risk to which the Bank is exposed are identified as interest rate risk and exchange risk. Considering the fact that the Bank's Trading Book portfolio is very small, more than 90% of Bank's assets and liabilities are based on floating interest rates; the Bank is exposed to market risk mainly due to the extent of maturity mismatches of its assets and liabilities and the exchange risk to the extent of its open position.

The assets held under the Trading book are marked to market as on 31 March 2011.

The bank is monitoring its maturity mismatches on a regular basis, and the potential loss on account of movement of interest rates by 1% based on exposure as at 31 March 2011, has been calculated as follows:

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

PARTICULARS	UP TO 1 Months	1 TO 3 Months	3 TO 6 Months	6 – 12 Months	1-3 years	Over 3 Years	Non Sensitive Category	TOTAL
ASSETS	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**	**$ (000s)**
Non Current Assets								
Prop Plant & Machinery	0	0	0	0	0	0	1,320	1,320
Intangible Assets	0	0	0	0	0	0	174	174
Inv Held to Maturity	0	15,768	1,680	1,194	4,683	0	0	23,325
Loans and Receivables	127,836	113,398	42,520	934	6,584	2,518	0	293,790
Bills Purchased	0	0	0	0	10,710	0	0	10,710
Current Assets								
Inv held to Maturity	2,735	14,388	4,381	0	0	0	0	21,504
Available-for-Sale Fin. Assets	22,419	25,097	0	0	0	0	0	47,516
Loans and Receivables	63,001	67,198	98,809	83,614	0	0	0	312,622
Trade and other Receivables	0	622	0	0	0	0	4,713	5,335
Prepayments	0	0	0	0	0	0	825	825
Customer Overdrafts	0	56,639	11,195	1,147	242	0	0	69,223
Cash and Cash Equivalents	68,937	0	35,000	0	0	0	0	103,937
Bills Purchased	0	4,917	20	2,114	0	0	0	7,051
Total Inflows	**284,928**	**298,027**	**193,605**	**89,003**	**22,219**	**2,518**	**7,032**	**897,332**
LIABILITIES								
Issued Share Capital	**0**	**0**	25,000	0	0	0	74,631	99,631
Reserves & Retained Profits	0	0	0	0	0	0	8,020	8,020
Total Equity	**0**	**0**	**25,000**	0	**0**	**0**	**82,651**	**107,651**
Non Current Liabilities								
Interest Bearing Borrowings	0	0	75,000	1,580	105,378	8,939	0	190,897
Current Liabilities								
Interest Bearing Borrowings	105,530	112,315	133,123	193,018	0	0	0	543,986
Non Interest Bearing Borrowing	45,335	0	0	0	0	0	0	45,335
Tax Payables	0	0	0	0	0	0	57	57
Trade and other Payables	0	0	0	0	0	0	9,406	9,406
Total Outflows	**150,865**	**112,315**	**233,123**	**194,598**	**105,378**	**8,939**	**92,114**	**897,332**
Inflows-Outflows	**134,063**	**185,712**	**(39,518)**	**(105,595)**	**(83,159)**	**(6,421)**		
Impact of Interest Variation of 1%	**56**	**155**	**49**	**264**	**832**	**64**		**1,420**

The bank has stipulated limit for open position and the actual open position is measured and monitored on a daily basis.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Exchange Risk

The bank is exposed to foreign exchange risk to the extent of its open position in each currency. The bank has stipulated an internal limit for maximum open position and it is measuring and monitoring this open position on a daily basis.

The bank is dealing in various currencies and it is not always possible to match the asset and liability in each currency. As a result, the Bank uses currency swaps to eliminate currency risk on long or short currency positions. These derivatives are re-valued daily and any change in their fair value is recognized immediately in profit and loss. The total notional amount of outstanding currency exchange contracts to which the Bank is committed is $237.92 million.

The financial statements are drawn up in US Dollars, which represent the currency of the primary economic environment in which the Bank operates and a significant portion of the banking assets and liabilities, revenues and expenses are transacted in US Dollars.

Monetary assets and liabilities denominated in other currencies are translated into US Dollars at the exchange rates ruling at the balance sheet date. Similarly income and expenses denominated in foreign currencies are converted into US Dollars from time to time at the prevailing exchange rate and remaining balances on the balance sheet date are translated into US Dollars at the ruling exchange rate on the balance sheet date. Resulting gains or losses on these translations are included in the income statement.

The open position of PNBIL as on 31 March 2011 is as follows:

Currency	Open Position (in '000)	USD Equivalent (in'000)
Indian Rupees	+79,941.46	+1,792.61
Pound Sterling	+281.07	+450.87
Euro	-51.08	-72.48
UAE Dirham	+339.51	+92.44
Canadian Dollar	+83.13	+85.60
Norwegian Kroner	+177.89	+32.17
Nepalese Rupees	-1,345.42	-18.86
Japanese Yen	+930.39	+11.22
Total Open Position in US Dollars		2,556.25

As per the Bank's Treasury and Investment Policy, the limit for the open position is stipulated at USD 3.0 million or equivalent. Since the open position is insignificant in relation to the Balance Sheet size the impact of the changes on account of movement of exchange rate is not considered material and therefore no sensitivity analysis has been presented.

Liquidity Risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations with respect to customer deposits or any borrowing or obligations under any other assets or liabilities, within stipulated time and without additional cost. The bank has documented liquidity policy in place, within the guidelines issued by the Financial Services Authority.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

ALCO is primarily responsible for overseeing the smooth implementation of the liquidity policy of the Bank. The Bank measures and monitors the liquidity position on a daily basis. The Bank considers the funding ability before committing additional credit facility and closely monitors the upcoming payment obligations. The Bank has already prepared an ILAA document taking into account revised guidelines issued by the regulator.

The Bank undertakes stress tests on its liquidity position taking into account worst case scenarios, based on its own past experiences as well as industry level guidelines. The Bank has also put in place contingency plans to meet its liquidity obligations under stressed scenarios. The Bank is also holding near liquid assets (marketable assets) in its portfolio to meet its liquidity obligations. The liquidity positions are reported to the Board from time to time and the policy is reviewed periodically to meet the changing needs.

Operational Risk

Operational risk is defined as the potential risk of financial loss resulting from inadequate or failed internal process systems, people or external events.

Major sources of operational risks for the Bank are identified as IT security, internal and external fraud, process errors, money laundering risks and external events like failure of transportation, non- availability of utilities etc.

The Bank has identified each of such possible eventualities and established mitigation processes and internal controls, including IT Security Policy, Maker checker for all financial transactions, A Business Continuity Plan in case of a disaster, documentation of processes and procedures, AML/CFT guidelines, staff handbook, TCF policy, Records retention policy, compliance code of conduct etc. is already in place and tested periodically.

Capital management

The capital structure of PNBIL consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

PNBIL's Risk Management Committee (RMC) reviews the capital structure on a semi annual basis.

	2011	*2010*
	$	*$*
Debt	**780,218,547**	711,848,156
Less: Cash and short-term deposits	**(103,937,108)**	(188,239,960)
Net debt	**676,281,439**	523,608,196
Equity	**99,630,629**	74,630,629
Total capital	**99,630,629**	74,630,629
Net Debt to Equity Ratio	**6.79**	**7.01**

The bank has complied in full with all its externally imposed capital requirements.

Liquidity management

The following table analyses the Company's assets and liabilities (based on undiscounted cash flows) into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date.

As at 31 March 2011	**Up to 1 m** (000s) $	**1-3 m** (000s) $	**3-12 m** (000s) $	**1-5 yr** (000s) $	**Over 5 yrs** (000s) $	**Undated** (000s) $	**Total** (000s) $
Loans and advances to banks	68,937	0	35,000	0	0	0	103,937
Loans & advances to customers	122,170	34,854	224,821	268,257	25,533	0	675,635
Debt securities	25,154	10,233	33,633	23,325	0	0	92,345
Other assets	0	3,762	3,289	10,710	0	7,654	25,415
Total assets	**216,261**	**48,849**	**296,743**	**302,292**	**25,533**	**7,654**	**897,332**
Deposits from banks	27,461	22,918	0	50,000	0	0	100,379
Other deposits	123,404	86,323	379,215	65,897	0	0	654,839
Other liabilities and shareholders funds	0	0	0	0	50,000	92,114	142,114
Total equity and liabilities	**150,865**	**109,241**	**379,215**	**115,897**	**50,000**	**92,114**	**897,332**
Net liquidity gap	65,396	(-)60,392	(-) 82,472	186,395	(-) 24,467	(-) 84,460	0

As at 31 March 2010	**Up to 1 m** (000s) $	**1-3 m** (000s) $	**3-12 m** (000s) $	**1-5 yr** (000s) $	**Over 5 yrs** (000s) $	**Undated** (000s) $	**Total** (000s) $
Loans and advances to banks	80,513	39,161	50,423	0	0	0	170,097
Loans & advances to customers	125,390	60,733	125,884	183,353	14,196	0	509,556
Debt securities	3,567	296	7,116	28,900	2,000	0	41,879
Other assets	73,085	295	2,157	509	523	1,452	78,021
Total assets	**282,555**	**100,485**	**185,580**	**212,762**	**16,719**	**1,452**	**799,553**
Deposits from banks	76,240	153,473	52,729	0	0	0	282,441
Other deposits	105,616	30,105	196,039	24,681	0	0	356,441
Other liabilities and shareholders funds	49,232	124	186	0	0	111,129	160,671
Total equity and liabilities	**231,088**	**183,701**	**248,954**	**24,681**	**0**	**111,129**	**799,553**
Net liquidity gap	51,467	(-)83,216	(-)63,374	188,081	16,719	(-)109,677	0

13. FINANCIAL INSTRUMENTS

For financial assets and liabilities carried at amortised cost, the directors do not anticipate the fair values to be materially different from the book values considering the underlying nature of portfolios except for the following:

	Carrying amount			*Fair value*
	2011	*2010*	**2011**	*2010*
	$	*$*	**$**	*$*
Held To Maturity Securities	**48,179,592**	32,013,252	**43,971,680**	*31,694,139*
Less Impairment Charge	**(3,350,000)**		**-**	
Net Book Value	**44,829,592**	32,013,252	**43,971,680**	*31,694,139*

The total impairment charge recorded within the HTM securities is on account of Bank's investment in a Lehman Brother's CLN (which is under liquidation). Due to the liquidation of Lehman Brothers the parent company, Punjab National Bank, sought to set off the Bank's investment against its own liability to Lehman Brothers. As a result the parent, Punjab National Bank remitted $5m cash to the Bank on the basis that it would be repaid out of the Lehman Brothers' claim. This was disclosed as a contingent liability in the prior year's financial statements.

During the year, following the mediation proceedings between the parent, Punjab National Bank and Lehman Brothers, it was concluded that the right of set off claimed earlier would not be eligible since the Bank is a separate entity and the claim was settled by the parent, Punjab National Bank with Lehman Brothers. The Bank has claimed separately against the liquidators for $5m and repaid the contingent liability to the parent, Punjab National Bank.

14. LOANS AND RECEIVABLES

	2011	*2010*
	$	*$*
Bills Purchased	17,761,305	1,798,562
Customer Overdraft	74,252,723	52,813,776
Demand and Term Loans	608,061,707	510,055,695
Total Loans and Receivables	**700,075,735**	**564,668,033**
Less: Impairment Charge on impaired assets*	(6,681,113)	(1,293,527)
Net Loans and Receivables	**693,394,622**	**563,374,506**
Out of Above:		
Non-Current:		
Bills Purchased	10,709,821	-
Demand and Term Loans	293,789,540	262,828,765
Total Non- Current Loans and Receivables	**304,499,361**	**262,828,765**
Current:		
Bills Purchased	7,051,484	1,798,562
Customer Overdraft	69,223,073	52,813,776
Demand and Term Loans	312,620,704	245,933,403
Total Current Loans and Receivables	**388,895,261**	**300,545,741**

*Loans and receivables have been reduced by the sum of $6,681,113 in respect of impairment to the accounts of two counterparties. The provision brought forward of $1,293,527 has been reversed due to recovery made in the impaired loan account during the year.

15. Impaired Assets and Provisions:

Loans and Receivables as at note 14 above and HTM securities as at note 13 above include impaired assets as below:

Amount in $

	Loans and Receivables	HTM Securities
Gross Balance of Impaired Assets	12,934,325	5,000,000
Less: Impairment Charge Made	6,681,113	3,350,000
Balance Net of Impairment Charge	6,253,212	1,650,000

Reconciliation of impairment charge for the year is provided below:

	2011	2010
	$	$
Balance as at 1 April	1,293,527	-
Add: Impairment Provision Recognized	10,031,113	1,293,527
Less: Amount of Impairment Provision Reversed	(1,293,527)	-
Closing Balance as at 31 March	10,031,113	1,293,527
Out of above:		
Provision against Impairment of Loans and Receivables	6,681,113	1,293,527
Provision against Impairment of HTM Securities	3,350,000	-
	10,031,113	1,293,527

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011	*2010*
	$	*$*
Marketable debt securities	**47,513,527**	*10,379,090*

All the above Securities are Level 1 securities where fair value measurements are derived from prices quoted in active markets for identical assets and liabilities.

Derivatives are considered to be Level 2 where fair value measurements are derived from inputs other than quoted prices that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

17. RELATED PARTY TRANSACTIONS

Ultimate controlling party

The ultimate controlling party of the company is Punjab National Bank, a Public sector bank incorporated in India and which is both the immediate parent company and ultimate controlling party. The consolidated financial statements of Punjab National Bank are publicly available at 7 Bhikaji Cama Place, New Delhi 110607, INDIA.

Related parties

The company regards Punjab National Bank, registered in India, as being a related party in view of its 100% shareholding in the company.

Included in the financial statements are service charges of $237,285 (2010: $201,605), levied by Punjab National Bank, for support services provided during the year. The services provided include IT Hosting, maintenance and support services to PNBIL and is backed by a Service Level Agreement (SLA). The company enters into commercial transactions with its parent company in the ordinary course of business on an arm’s length basis.

During the year, the company settled the contingent liability towards Punjab National Bank amounting to $5,107,906 on account of its investment in Lehman Brothers which is under liquidation (refer note 13 for details).

At 31 March 2011 the company held deposits and inter bank borrowings from its parent company totalling $101,889,698 (2010: $73,266,362) and bank balances / inter- bank placements to its parent company totalling $1,850,954 (2010: $727,947). The Company has also provided Buyers Credit totalling $49,293,750 to customers of Punjab National Bank (as at 31 March 2011: $1,867,849) based upon letters of comfort from the parent Company.

The Company has, during the year, earned $544,184 (2010: $9,921) through inter-bank placements and buyers credit with its parent. The total expenditure incurred during the year on inter-bank borrowings from the parent and the SLA charges mentioned above, for the year, was $1,586,140 (2010: $1,559,875).

17. RELATED PARTY TRANSACTIONS (continued)

Company paid interest of $1,140,558 as interest on redeemable bonds of $25 million held by Punjab National Bank as Lower Tier II Capital. During the year, company raised Upper Tier II Capital of $25 million by issuing perpetual notes of equivalent amount to Punjab National Bank. This amount was received from Punjab National Bank on 22 March 2011 and the note was issued on 30 March 2011. For the intervening period from 22 March 2011 to 29 March 2011 interest in the amount of $24,778 was paid to Punjab National Bank.

Other transactions with related parties include remuneration paid to directors which the bank considers as key management are disclosed in Note 6. The Bank considers that the cost of secondment of executives to or from the parent company is not material.

18. TRADE AND OTHER RECEIVABLES

	2011	*2010*
	$	*$*
Accrued income	**5,289,250**	**3,778,329**
Other receivables	**48,313**	**-**
	5,337,563	**3,778,329**

19. PREPAYMENTS

	2011	*2010*
	$	*$*
Current prepayments	**825,271**	*394,833*

20. CASH AND CASH EQUIVALENTS

	2011	*2010*
	$	*$*
Cash on hand	**614,409**	*273,492*
Cash at bank	**103,322,699**	*187,966,468*
	103,937,108	*188,239,960*

21. SHARE CAPITAL

Issued share capital

	2011		*2010*	
	No.	**$**	*No.*	*$*
Issued and fully paid				
Ordinary shares of £1 each	**2**	**4**	*2*	*4*
Ordinary shares of $1 each				
At start of year	**74,630,625**	**74,630,625**	49,630,625	49,630,625
New Issue of Share Capital	**-**	**-**	25,000,000	25,000,000
New issues of Perpetual Notes*	**25,000,000**	**25,000,000**	-	-
At end of year	**99,630,627**	**99,630,629**	74,630,627	74,630,629

All issued share capital is classified as equity.

*During the year the Bank has raised Upper Tier II Capital of $25m from the parent, Punjab National Bank in the form of perpetual floating rate subordinated notes (callable at the option of the issuer after 10 years) which will eventually be listed on Channel Island Stock Exchange. The discretionary rate of interest payable is 4% above LIBOR.

21. SHARE CAPITAL (continued)

Based on the terms and conditions of the purchase agreement and in accordance with IAS 32 guidance, since the interest payments are discretionary and the bank does not have obligation to pay cash or other financial asset in respect of its perpetual instrument nor there is any obligation to exercise its right to call the instrument this is classified as Equity in the financial statements.

22. RESERVES

31 March 2011	**AFS reserve**
	$
As at 1 April 2010	156,840
Movement in the value of AFS investments, net of tax	(391,131)
As at 31 March 2011	(234,291)

The reduction in the value of the available-for-sale investments of $325,404 has been offset by attributable current income tax in the sum of $91,113.

31 March 2010	
	$
At 1 April 2009	-
Movement in the value of AFS investments, net of tax	156,840
At 31 March 2010	156,840

The uplift in the value of the available-for-sale investments of $217,835 has been offset by attributable current income tax in the sum of $60,995.

23. FINANCIAL LIABILITIES

	2011	*2010*
	$	*$*
Non-current		
Fixed Term Deposits	**115,897,350**	38,043,436
Subordinated Debt	**25,000,000**	25,000,000
Inter Bank Deposits	**50,000,000**	-
	190,897,350	63,043,436
Current Interest Bearing borrowings		
Inter Bank Deposits	**50,378,914**	281,183,961
Fixed term deposits	**477,214,621**	318,180,176
Savings accounts	**16,236,919**	12,422,902
Call deposits and other	**155,801**	
	543,986,255	611,787,039
Current Non Interest Bearing Borrowings		
Current accounts	**45,156,780**	36,484,332
Bills payable	**178,162**	533,349
	45,334,942	37,017,681
Total Current Financial Liabilities	**589,321,197**	648,804,720

Bank loans and other borrowings

	2011	2010
	$	$
Inter Bank Deposits	**100,378,914**	281,183,961
Subordinated Debt (as per note below)	**25,000,000**	25,000,000
Savings account	**16,236,919**	12,422,902
Fixed term deposits	**593,111,971**	356,223,612
Current accounts	**45,156,780**	36,484,332
Bills payable	**178,162**	533,349
Call deposits and other	**155,801**	-
	780,218,547	711,848,156
Less: Total Current Financial Liabilities	**(589,321,197)**	(648,804,720)
	190,897,350	63,043,436

Subordinated Debt

This represents Lower Tier 11 Capital received from the Parent Company, Punjab National Bank, in the sum of $25,000,000 in the form of floating rate subordinated notes maturing in 2019 which have been listed on the Channel Islands Stock Exchange. Repayment can be called in 2014 and the rate payable is 4% over LIBOR.

24. TRADE AND OTHER PAYABLES

	2011	2010
	$	$
Other payables	**65,219**	160,796
Accrued liabilities	**9,330,981**	5,039,765
	9,396,200	5,200,561

25. OPERATING LEASE COMMITMENTS

Where Bank is the lessee, the future minimum lease payments under non cancellable operating leases

	2011	2010
	$	$
Less than one year	**564,664**	*364,474*
Later than one year but less than five years	**995,576**	*727,833*
	1,560,240	*1,092,307*

26. OTHER COMMITMENTS AND CONTINGENCIES

Commitments

Commitments in respect of equipment and building contracts at the balance sheet date totalled $260,697 (previous year $321,099).

Commitments in respect of financial instruments not reflected in the body of these financial statements were as follows:

	2011	*2010*
	$	*$*
Guarantees issued to third parties	**1,805,061**	*3,704,440*
Letters of credit issued	**60,852,275**	*1,383,259*
Letters of credit confirmed	**31,867,006**	*17,664,525*

27. EVENTS AFTER THE BALANCE SHEET DATE

There have been no reportable events after the balance sheet date.